



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

State Auditor's Office

*For the Two Fiscal Years Ended
June 30, 2016*

APRIL 2017

LEGISLATIVE AUDIT
DIVISION

16-20

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
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Helena, MT 59620-1705

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Reports can be found in electronic format at:
<http://leg.mt.gov/audit>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

April 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the State Auditor's Office (office) for the two fiscal years ended June 30, 2016. Our report contains no recommendations to the office.

The office's written response is included in the audit report on page C-1. We thank the Commissioner and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

State Auditor's Office

Effective January 2, 2017

Matthew M. Rosendale, Sr., State Auditor Commissioner of Securities & Insurance

Nancy Butler, Deputy State Auditor

Lynne Egan, Deputy Securities Commissioner

Bob Biskupiak, Deputy Insurance Commissioner

Kristen Hansen, Chief Legal Counsel

Staci Litschauer, Central Services Administrator

Through December 2016

Monica Lindeen, State Auditor Commissioner of Securities & Insurance

Adam Schafer, Deputy State Auditor

Lynne Egan, Deputy Securities Commissioner

Greg Dahl, Deputy Insurance Commissioner

Jesse Laslovich, Chief Legal Counsel

Staci Litschauer, Central Services Administrator

For additional information concerning the State Auditor's Office, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

State Auditor's Office

For the Two Fiscal Years Ended June 30, 2016

APRIL 2017

16-20

REPORT SUMMARY

Insure Montana was a program designed to assist small businesses with cost of health insurance. This program was funded through December 2015 and is no longer available.

Context

The mission of the State Auditor's Office (office) is to protect Montana's consumers through insurance and securities regulation. The elected Montana State Auditor serves as the Commissioner of Securities and Insurance.

The office is organized into three divisions: Central Management; Insurance; and Securities. The Insurance Division investigates insurance code and rule violations, collects taxes, resolves complaints, provides insurance licenses, reviews rates, and provides continuing education. The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana. This includes registration of securities issuers, sales people, investment advisers, brokers-dealers, and investment adviser representatives, and conducting investigations.

Total revenues collected by the office were approximately \$125 million and \$130 million in fiscal years 2015 and 2016, respectively. Primary revenue sources include insurance premium tax and securities and insurance licenses, permits, and fees. Approximately 64 percent or more of total revenues are deposited into the General Fund annually.

Total annual expenditures approximate \$52 million. Primary office expenditures

include local assistance, which represents state contributions to firefighter and police retirement systems, Insure Montana tax credits (fiscal year 2015), and premium assistance.

We focused our audit effort primarily on insurance and securities revenues, including premium insurance tax, licenses, permits, and fees. We also audited the related expenditures activity including payments of local assistance in support of the Firefighters' Unified Retirement System, the Volunteer Firefighters' Pension trust fund, and the Municipal Police Officers' Retirement System administered by the Montana Public Employees' Retirement Administration. Throughout the audit, we reviewed and tested the office's control systems and determined compliance with selected state laws and regulations.

Results

The current report contains no recommendations. The prior report contained three recommendations. One prior audit recommendation is no longer applicable since it was related to the Insure Montana program. Recommendations related to computer access and documentation required to register as a securities agent were implemented by the office.

For a complete copy of the report (16-20) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the State Auditor's Office (office) for the two fiscal years ended June 30, 2016. The objectives of the audit were:

1. To obtain an understanding of the office's control structure to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the office's management and internal controls.
2. To determine the office's compliance with selected state laws and regulations during the two fiscal years ending June 30, 2016.
3. To determine the implementation status of prior audit recommendations.
4. To determine whether the office's financial schedules present fairly the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2016, and June 30, 2015.

We addressed these objectives by focusing our audit effort primarily on insurance and securities revenues, including premium insurance tax, licenses, permits, and fees. We also audited the related expenditures activity including payments of local assistance in support of the Firefighters' Unified Retirement System, the Volunteer Firefighters' Pension trust fund, and the Municipal Police Officers' Retirement System administered by the Montana Public Employees' Retirement Administration. Throughout the audit, we reviewed and tested the office's control systems and determined compliance with selected state laws and regulations. The report contains no recommendations.

Office Background and Organization

The State Auditor is the Commissioner of Insurance and Securities. The State Auditor also serves as a member of the State Land Board and the Crop Hail Insurance Board. The office licenses and regulates insurance companies and agents within the state, and regulates and registers securities dealers.

The following divisions or activities that are presented on the Schedules of Expenditures & Transfers-Out are explained below. Total authorized full-time equivalent (FTE) staff for the programs and activities was 81.50 during the audit period, which includes 1.50 FTE modified positions that are not included in the division counts. The Local Assistance to Counties has no approved FTE and is primarily administered through the FTE of the Central Management program.

Central Management Division: (18.8 FTE) This division is responsible for the administrative, budgeting, personnel, and accounting functions of the office. The

division also provides support for the State Auditor as he fulfills his duties on the State Land Board and the Crop Hail Insurance Board.

Insurance Division: (50.40 FTE) This division regulates the insurance industry in Montana. Its duties include: resolving insurance consumer inquiries and complaints about agents, coverage, and companies; licensing and reviewing the rates and financial condition of insurance companies; collecting the insurance premium tax; approving forms used by insurance companies; licensing, testing, and administering a continuing education program for insurance agents; and investigating insurance code and rule violations.

The division administered the Insure Montana Program, a program that was designed to assist small businesses with the cost of health insurance. This program was no longer funded as of December 2015.

Local Assistance to Counties: The office is responsible for distributing General Fund moneys to the Montana Public Employees' Retirement Administration for the Firefighters' Unified Retirement System, the Volunteer Firefighters' Pension trust fund, and the Municipal Police Officers' Retirement System.

Securities Division: (10.84 FTE) This division is responsible for the administration and enforcement of the Securities Act of Montana. The division is responsible for the registration of securities issuers, salespeople, investment advisers, broker-dealers, and investment adviser representatives. It also investigates instances of unregistered or fraudulent securities transactions.

Prior Audit Recommendations

The prior financial-compliance audit of the office for the two fiscal years ended June 30, 2014, contained three recommendations. One prior audit recommendation is no longer applicable since it was related to the Insure Montana program that was no longer funded as of December 2015. Recommendations related to computer access and documentation required to register as a securities officer were implemented by the office.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2016, Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2015, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out of the State Auditor's Office (office) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets and liabilities.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office as of June 30, 2016, and June 30, 2015, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2016, Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2015, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the State Auditor's Office for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017, on our consideration of the office internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 30, 2017

STATE AUDITOR'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2015					
PROPERTY HELD IN TRUST: July 1, 2015	<u>\$ (31,448,105)</u>	<u>\$ 4,369,260</u>	<u>\$ 215</u>	<u>\$ 0</u>	<u>\$ 12,760,108</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	76,677,162	45,081,768	3,785		
Nonbudgeted Revenues & Transfers-In	8,058,687	436,880			84,988
Prior Year Revenues & Transfers-In Adjustments	(2,506)	(2,230)			
Direct Entries to Fund Equity	(49,755,087)	(30,228,372)			
Additions to Property Held in Trust				35,415	
Total Additions	<u>34,978,256</u>	<u>15,288,046</u>	<u>3,785</u>	<u>35,415</u>	<u>84,988</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	34,071,032	8,406,045	4,000		
Nonbudgeted Expenditures & Transfers-Out	(339)	8,543,668			1,417,698
Prior Year Expenditures & Transfers-Out Adjustments	(79,466)	(48,807)			
Reductions in Property Held in Trust				15,405	
Total Reductions	<u>33,991,226</u>	<u>16,900,906</u>	<u>4,000</u>	<u>15,405</u>	<u>1,417,698</u>
FUND EQUITY: June 30, 2016	<u>\$ (30,461,076)</u>	<u>\$ 2,756,401</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,427,398</u>
PROPERTY HELD IN TRUST: June 30, 2016				<u>20,010</u>	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

STATE AUDITOR'S OFFICE
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2014	\$ (28,232,344)	\$ 7,733,946	\$ 500	\$ 12,786,423
ADDITIONS				
Budgeted Revenues & Transfers-In	74,175,209	44,562,794		
Nonbudgeted Revenues & Transfers-In	6,310,317	362,305		15,279
Prior Year Revenues & Transfers-In Adjustments	(18,478)	(29,869)		
Direct Entries to Fund Equity	(49,127,772)	(30,777,148)		
Total Additions	31,339,278	14,118,082	0	15,279
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	34,752,397	10,666,682	285	
Nonbudgeted Expenditures & Transfers-Out	1,463	6,839,756		41,594
Prior Year Expenditures & Transfers-Out Adjustments	(198,821)	(23,672)		
Total Reductions	34,555,039	17,482,767	285	41,594
FUND EQUITY: June 30, 2015	\$ (31,448,105)	\$ 4,369,260	\$ 215	\$ 12,760,108

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
Licenses and Permits					
Taxes	\$ 7,241,228	\$ 15,212,712			\$ 22,453,940
Charges for Services	69,223,242	29,368,722			98,591,964
Fines and Forfeits	7,253	315,621			322,874
Grants, Contracts, and Donations	202,934				202,934
Transfers-in				\$ 84,988	137,788
Intra-entity Revenue		52,800			52,800
Capital Asset Sale Proceeds	8,058,687	380,194	\$ 3,785		8,442,666
Miscellaneous		130,325			130,325
Total Revenues & Transfers-In		52,318			52,318
Less: Nonbudgeted Revenues & Transfers-In	84,733,342	45,516,418	3,785	84,988	130,338,534
Prior Year Revenues & Transfers-In Adjustments	8,058,687	436,880		84,988	8,580,555
Actual Budgeted Revenues & Transfers-In	(2,506)	(2,230)			(4,736)
Estimated Revenues & Transfers-In	76,677,162	45,081,768	3,785	0	121,762,715
Budgeted Revenues & Transfers-In Over (Under) Estimated	82,641,001	45,147,701	700		127,789,402
	\$ (5,963,839)	\$ (65,933)	\$ 3,085	\$ 0	\$ (6,026,687)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits					
Taxes	\$ (772)	\$ (3,188)			\$ (3,960)
Charges for Services	(54,252)	(61,054)			(115,306)
Fines and Forfeits	8,253	(2,540)			5,713
Transfers-in	(22,066)				(22,066)
Intra-entity Revenue	(5,895,000)		\$ 3,085		(5,891,915)
Miscellaneous		25			25
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	823			822
	\$ (5,963,839)	\$ (65,933)	\$ 3,085	\$ 0	\$ (6,026,687)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Private Purpose Trust Fund	Total
Licenses and Permits					
Taxes	\$ 6,800,062	\$ 14,837,152			\$ 21,637,214
Charges for Services	66,536,445	29,334,619			95,871,064
Fines and Forfeits		299,345			299,345
Grants, Contracts, and Donations	820,225				820,225
Transfers-in				\$ 15,279	15,279
Miscellaneous	6,310,317	362,174			6,672,491
Total Revenues & Transfers-In	80,467,049	61,940			125,377,558
Less: Nonbudgeted Revenues & Transfers-In			0	15,279	
Prior Year Revenues & Transfers-In Adjustments	6,310,317	362,305		15,279	6,687,902
Actual Budgeted Revenues & Transfers-In	(18,478)	(29,869)			(48,346)
Estimated Revenues & Transfers-In	74,175,209	44,562,794	0	0	118,738,003
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 74,184,002	\$ 44,385,501	\$ 4,000	\$ 0	\$ 118,573,503
	\$ (8,793)	\$ 177,293	\$ (4,000)	\$ 0	\$ 164,500
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits					
Taxes	\$ (838)	\$ 2,152			\$ 1,314
Charges for Services	(27)	126			98
Fines and Forfeits	(8,000)	132,474			124,474
Transfers-in	75				75
Miscellaneous	(1)		(4,000)		(4,001)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1)	\$ 42,540	\$ (4,000)	\$ 0	\$ 42,539
	\$ (8,793)	\$ 177,293	\$ (4,000)	\$ 0	\$ 164,500

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Insurance	Local Assistance to Counties	Securities	Total
Personal Services					
Salaries	\$ 946,346	\$ 2,870,983		\$ 664,020	\$ 4,481,348
Employee Benefits	340,622	1,040,857		223,516	1,604,995
Total	<u>1,286,968</u>	<u>3,911,839</u>		<u>887,536</u>	<u>6,086,344</u>
Operating Expenses					
Other Services	92,571	503,193		68,566	664,330
Supplies & Materials	79,334	23,505		89,910	192,749
Communications	75,315	51,281		16,340	142,936
Travel	19,720	73,717		30,428	123,865
Rent	108,069	333,816		69,254	511,139
Repair & Maintenance	3,960	2,774		141	6,876
Other Expenses	64,285	72,896		11,832	149,014
Total	<u>443,255</u>	<u>1,061,181</u>		<u>286,472</u>	<u>1,790,908</u>
Equipment & Intangible Assets					
Equipment	9,500				9,500
Total	<u>9,500</u>				<u>9,500</u>
Local Assistance					
From other sources			\$ 30,356,261		30,356,261
Total			<u>30,356,261</u>		<u>30,356,261</u>
Benefits & Claims					
From State Sources		3,476,684		737,555	4,214,239
From Other Sources		1,417,698			1,417,698
Total		<u>4,894,382</u>		<u>737,555</u>	<u>5,631,937</u>
Transfers-out					
Fund transfers		1,360,921		7,077,960	8,438,881
Total		<u>1,360,921</u>		<u>7,077,960</u>	<u>8,438,881</u>
Total Expenditures & Transfers-Out	\$ <u>1,739,723</u>	\$ <u>11,228,323</u>	\$ <u>30,356,261</u>	\$ <u>8,989,523</u>	\$ <u>52,313,831</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund		\$ 3,634,965	\$ 30,356,261		\$ 33,991,226
State Special Revenue Fund	\$ 1,739,723	6,171,660		\$ 8,989,523	16,900,906
Federal Special Revenue Fund		4,000			4,000
Private Purpose Trust Fund		1,417,698			1,417,698
Total Expenditures & Transfers-Out	<u>1,739,723</u>	<u>11,228,323</u>	<u>30,356,261</u>	<u>8,989,523</u>	<u>52,313,831</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(922)	2,851,507		7,110,441	9,961,027
Prior Year Expenditures & Transfers-Out Adjustments	<u>(1,977)</u>	<u>(80,091)</u>	<u>(46,205)</u>		<u>(128,273)</u>
Actual Budgeted Expenditures & Transfers-Out	1,742,621	8,456,907	30,402,466	1,879,082	42,481,077
Budget Authority	2,269,252	10,714,545	30,522,872	2,482,411	45,989,080
Unspent Budget Authority	\$ <u>526,631</u>	\$ <u>2,257,638</u>	\$ <u>120,406</u>	\$ <u>603,329</u>	\$ <u>3,508,003</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund		\$ 831,435	\$ 120,406		\$ 951,840
State Special Revenue Fund	\$ 526,631	1,426,203		\$ 603,329	2,556,163
Unspent Budget Authority	\$ <u>526,631</u>	\$ <u>2,257,638</u>	\$ <u>120,406</u>	\$ <u>603,329</u>	\$ <u>3,508,003</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

STATE AUDITOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Central Management	Insurance	Local Assistance to Counties	Securities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT					
Personal Services					
Salaries	\$ 943,616	\$ 2,828,553		\$ 725,866	\$ 4,498,036
Employee Benefits	335,564	1,003,496		239,386	1,578,446
Total	<u>1,279,179</u>	<u>3,832,050</u>		<u>965,252</u>	<u>6,076,481</u>
Operating Expenses					
Other Services	13,420	1,140,428		51,038	1,204,885
Supplies & Materials	58,538	53,385		11,470	123,393
Communications	78,720	60,508		12,223	151,451
Travel	23,165	104,754		22,547	150,467
Rent	125,403	329,053		33,777	488,233
Utilities	52	142		14	209
Repair & Maintenance	765	512		35	1,312
Other Expenses	60,009	59,977		10,139	130,126
Goods Purchased For Resale	641				641
Total	<u>360,713</u>	<u>1,748,760</u>		<u>141,243</u>	<u>2,250,716</u>
Equipment & Intangible Assets					
Equipment	37,106				37,106
Total	<u>37,106</u>				<u>37,106</u>
Local Assistance					
From other sources			\$ 29,416,956		29,416,956
Total			<u>29,416,956</u>		<u>29,416,956</u>
Benefits & Claims					
From State Sources		7,562,741		21,600	7,584,341
From Other Sources		41,594			41,594
Total		<u>7,604,335</u>		<u>21,600</u>	<u>7,625,935</u>
Transfers-out					
Fund transfers		146,342		6,526,149	6,672,491
Total		<u>146,342</u>		<u>6,526,149</u>	<u>6,672,491</u>
Total Expenditures & Transfers-Out	\$ <u>1,676,999</u>	\$ <u>13,331,486</u>	\$ <u>29,416,956</u>	\$ <u>7,654,245</u>	\$ <u>52,079,685</u>
EXPENDITURES & TRANSFERS-OUT BY FUND					
General Fund		\$ 5,138,083	\$ 29,416,956		\$ 34,555,039
State Special Revenue Fund	\$ 1,676,999	8,151,523		\$ 7,654,245	17,482,767
Federal Special Revenue Fund		285			285
Private Purpose Trust Fund		41,594			41,594
Total Expenditures & Transfers-Out	<u>1,676,999</u>	<u>13,331,486</u>	<u>29,416,956</u>	<u>7,654,245</u>	<u>52,079,685</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(728)	355,589		6,527,951	6,882,813
Prior Year Expenditures & Transfers-Out Adjustments	<u>(22,840)</u>	<u>(163,935)</u>	<u>(35,777)</u>	<u>60</u>	<u>(222,492)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>1,700,566</u>	<u>13,139,831</u>	<u>29,452,733</u>	<u>1,126,233</u>	<u>45,419,364</u>
Budget Authority	<u>2,184,693</u>	<u>17,179,180</u>	<u>30,288,851</u>	<u>1,589,613</u>	<u>51,242,337</u>
Unspent Budget Authority	\$ <u>484,127</u>	\$ <u>4,039,348</u>	\$ <u>836,118</u>	\$ <u>463,380</u>	\$ <u>5,822,972</u>
UNSPENT BUDGET AUTHORITY BY FUND					
General Fund		\$ 1,463,711	\$ 836,118		\$ 2,299,829
State Special Revenue Fund	\$ 484,127	2,571,922		\$ 463,380	3,519,428
Federal Special Revenue Fund		3,715			3,715
Unspent Budget Authority	\$ <u>484,127</u>	\$ <u>4,039,348</u>	\$ <u>836,118</u>	\$ <u>463,380</u>	\$ <u>5,822,972</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

State Auditor's Office

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue funds). In applying the modified accrual basis, the office records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

The office uses accrual basis accounting for its Fiduciary (Private-Purpose Trust) fund category. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The General Fund includes revenue for insurance premium tax, securities brokerage licenses, fines and penalties, and transfers in from securities and captive insurance state special revenue funds. The expenditures included in the general fund are transfers of funds to Montana Public Employee's Retirement Administration, expenditures to

each city or town that has a fire relief association or a police department that is not a participant in the municipal police officer's retirement system, and Insure Montana Activity.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds include Insurance and Security Division activity, such as securities portfolio registrations revenue, insurance license revenue, examination fees, industry continuing education programs, and Insure Montana Activity.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Fund is the Continuing Education Grant.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The office's private-purpose trust fund includes financial deposits required to be held in trust by the office for insurance companies licensed in Montana.
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The office's agency funds include Property Held in Trust.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2015 and June 30, 2016.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The significant portion of direct entries in both the General Fund and State Special Revenue Fund relate to resources from premium insurance tax revenues.

4. Insure Montana Program

The Insure Montana Program ended December 31, 2015. Accordingly, program benefits and claims expenditures decreased from \$7,562,740 in FY 2015 to \$3,476,683 in FY 2016. The FY 2015-16 program was funded fully from the General Fund.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity & Property Held in Trust for the fiscal year ended June 30, 2016, Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2015, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out of the State Auditor's Office (office) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated January 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the State Auditor's Office internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of office internal control. Accordingly, we do not express an opinion on the effectiveness of office internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 30, 2017

STATE AUDITOR'S OFFICE

OFFICE RESPONSE

COMMISSIONER OF SECURITIES & INSURANCE

MATTHEW M. ROSENDALE, SR.
COMMISSIONER



OFFICE OF THE MONTANA
STATE AUDITOR

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LEGISLATIVE AUDIT DIV.

March 31, 2017

Angus Maciver, Legislative Auditor
Office of the Legislative Auditor
P.O. Box 201705
Helena, Mt. 59620-1705

Dear Mr. Maciver,

The Office of the Commissioner of Securities and Insurance, Montana State Auditor has reviewed the financial compliance audit for the two fiscal years ending June 30, 2016, and has no comments or exceptions to the report.

As Commissioner, I thank you and the audit team for your hard work and professionalism during this audit. We always look upon the audit process as an opportunity to evaluate and improve our operations and performance.

Sincerely,

A handwritten signature in dark ink, appearing to read "Matthew M. Rosendale, Sr." with a stylized flourish at the end.

Matthew M. Rosendale, Sr.
Commissioner of Securities & Insurance
Office of the Montana State Auditor